Ontario

The Facts About Credit and You

Ministry of
Consumer and
Commercial Relations

VISION
To promote a fair, safe and informed marketplace which supports a competitive economy in Ontario.

Buying on credit is so widespread that most of us can't imagine a world without it. We obtain goods, services, and money in exchange for the promise to pay in the future.

Credit is an important financial tool that makes living more convenient, and, wisely used, improves the quality of life by helping us purchase goods and services as we need them.

Carelessly used or abused, credit may create financial problems that could seriously affect one's lifestyle.

Use this booklet as a guide on how to use credit wisely.

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Credit: How to get it

Shopping for credit is no different from shopping for consumer goods. We have to know the why, when, what and where; as well as how much to buy, depending on our needs, values, goals, and income. We must know both the advantages and disadvantages of credit, the cost, the potential sources, and the responsibilities involved.

Advantages and disadvantages of credit

Wise and responsible use of credit can improve the quality of life by allowing us to upgrade our education or our standard of living, and assist us to budgeting our needs and wants.

Careless or irresponsible use of credit can lead to over-extension and serious financial and credit problems.

Advantages

Credit allows us to purchase and enjoy goods and services as they are needed or wanted and to pay for them out of anticipated future income.

We can "afford" major purchases, such as appliances, cars, a home, or a

vacation *now* without having to wait and save for them.

- Credit cards offer a convenient way to shop without carrying large sums of money.
- We can handle temporary or unexpected financial emergencies, such as illness, car breakdown, replacing a roof, with credit.
- Credit allows us to invest in better-quality goods (clothing, furniture) that will last longer.
- By using credit, we do not have to use all our savings or liquidate our investments.
- With credit, we can take advantage of sales and price reductions.

Disadvantages

- Easily available credit can encourage us to live beyond our means. Tying up too much of our future income with credit payments can make it difficult to meet basic expenses such as rent, food, and clothing when payments are due.
- Credit can be expensive, inflating the overall price of goods and services.
- Credit cards may tempt us to buy on impulse.

Because credit is only a temporary replacement for money, we have to be prepared to budget our future income accordingly.

With retail store credit accounts, we may forget to comparison shop for better value.

Unless we pay off our purchases before any interest charges are billed, our bargains may turn into luxury items.

Establishing credit

How you use credit can significantly affect your lifestyle. Consider whether you really need credit, keeping in mind that credit has both advantages and disadvantages. If you decide that you have a practical reason for wanting credit, check your finances to see if you can afford to use it. Determine whether enough of your pay cheque will be left for credit payments after you've met all your other necessary expenses.

When you've made a decision to use credit, it's time to start shopping for credit and to establish your own credit record.

Shopping for credit

Arranging to use credit is the same as buying other consumer goods and services—your chances of getting the best possible terms improve if you do some comparison shopping.

Credit charges vary according to the source and type of transaction. The interest charged depends on the degree of risk involved, and the cost of money at a particular time. The organization's expenses for collecting and keeping records, monthly statements, and other aspects of customer service are also considered.

You should consider the different types of lending agencies, the kind of credit services offered and the interest rates charged. Compare interest rates and the other terms of credit agreements before you decide.

Remember

- The higher the down payment, the lower the monthly payments.
- The lower the interest rate, the lower the monthly payments.
- Quick repayment keeps interest charges to a minimum.

Spare cash applied in lump sum payments to your loan can substantially reduce the lifespan of the loan and the total interest paid.

How to obtain credit

You can obtain credit and establish your credit worthiness in a variety of ways. Examine the methods suggested below and choose those that suit your particular needs.

Take care not to open too many accounts at once. You don't want to strain your financial resources because of too many credit payments. And you don't want money-management problems that stem from having to keep track of too many accounts.

When you apply for credit the first time, keep in mind that you may be asked to have someone who knows you co-sign your application. A co-signer should be a responsible person with an acceptable credit record.

Once you've successfully maintained an account, you can usually get further credit without a co-signer. Here are some suggestions for obtaining credit:

- Apply for a charge account at a local department store or shop.
- If you drive, apply for a credit card from a gasoline company.
- Apply for your bank's package deal for personal banking services; they often include an all-purpose bank credit card.
- Apply for a general-purpose credit card.
- Join a credit union at your place of employment or in your community.
- Apply for a loan from a financial institution such as a bank, trust company, credit union, or finance company, and pay off the loan promptly.

Sources and types of credit

Today, we can buy almost all goods and services through some form of credit. Often, we can choose the method of credit (such as charge account, credit card, loan) that best suits our financial plans. For example, we often decide to finance expensive items (cars, major appliances, home furnishing, home improvements) through a combination of cash down payment and a balance paid through a loan.

Usually, we have a wide choice of credit sources available to us, so it is important to shop around and compare conditions and interest rates.

We can choose from banks, credit unions, trust companies, consumer loan companies, finance companies, life insurance companies, credit card organizations, and retail stores. The services offered vary depending on the organization, its location, the size of the city or community, and other factors.

Your credit worthiness

Credit-granting agencies attempt to determine your credit worthiness to reduce the risks involved in extending credit. They look for indications of stability and responsibility based on your promise and ability to repay the amount you borrow.

Your ability to obtain credit, be it a personal loan, a charge account, or a credit card, depends on your credit record based on what creditors traditionally call the three Cs: character, capacity, and collateral.

Character means a sincere attitude towards repayment of your loan or account based on your previous financial record. Do you really intend to pay your bills? Have you shown responsibility in handling your finances in the past?

Capacity includes employment record and ability to pay installments from current income. How long have you been employed? How secure is your job? Do you own or rent your living accommodations? How long have you lived at your current address?

Collateral is what you own that is worth more than the debt, such as life insurance, savings, car, equity in a home, or household goods. Can you afford credit? Do you own anything that could be used as collateral that is worth more than the amount you want to borrow?

After your initial written application, your credit worthiness may be determined by personal interview or by a point scoring system.

Personal interview

During a personal interview the credit grantor evaluates the information you have disclosed about yourself and makes a decision to grant or refuse credit. To make this decision, the

authorizer uses the judgment she or he has developed over the years.

However, credit grantors rely less and less on personal interviews as most applications are now received by mail. Also, consumers have become used to the privacy of applying for credit cards by mail and may be more reluctant to discuss the same information in person when applying for a cash loan.

That's why credit grantors have developed a system called "credit point scoring" that allows them to process a large number of applications in a consistent manner and to consider every applicant on a equal basis.

Credit point scoring

Credit scoring is a method of translating the many years of a company's credit experiences into a series of statistical point values.

This statistical point system evaluates credit applicants according to points assigned for certain individual characteristics, such as occupation, employment, stability of employment, residence, and other credit references (credit cards, loans, savings and chequing accounts, and so on). To the credit grantor, the total point value of the characteristics evaluated indicates the

applicant's credit worthiness. But credit scoring differs from one company to another since each one develops its own point values based on its credit experiences.

Past experience with account holders helps a company predict whether an applicant who shows characteristics similar to previous applicants will be a good, fair, or poor risk as a credit customer. No single characteristic alone is enough to grant or refuse credit to an applicant; only the total score is used for that final decision.

Companies using credit scoring may supplement the total point score with credit reports and/or employment checks before making the final decision.

Credit bureaus

Retailers and lending agencies may then verify the information from your credit application through a credit reporting agency which collects information from a variety of credit grantors who are members of that agency.

Credit reporting agencies, or credit bureaus, are private institutions that serve retailers and other credit grantors by providing them with information about your credit record. The credit grantors in turn may use this

information to verify and assess your credit worthiness.

This helps them to decide whether or not they should extend credit to you. Therefore, it is in your own best interest to keep your credit record favourable by using credit wisely and by repaying your financial obligations responsibly.

Credit record, or credit history

From the first time you use credit, credit bureaus maintain a record of most of your credit transactions. This record may include information such as when, where, and how much you borrow, the date each line of credit is established, and how you handle repayments.

Your file may also contain information of public record (such as lawsuits or pending litigation) which might affect your ability to make payments. This record, commonly called a credit rating, is really a record of your credit history. It simply shows the history of your credit transactions; each credit item listed may be rated.

Access to your credit record

Under the *Consumer Reporting Act,* you have the right to review your credit record. Check your local telephone directory for the credit bureau nearest you and set up an appointment to review your file.

The only other people who have access to your file are those companies or individuals who are members of a recognized credit bureau.

What information may be reported and how it may be used is described in the section of this booklet called *The Consumer Reporting Act.*

Credit: Problems getting it?

What if you are denied credit?

Your application for credit may be turned down for a number of reasons. Although credit-granting agencies are *not obligated* to extend credit to you, they are nevertheless in the business of lending money. It is in their own interest to find reasons to extend credit, not to refuse it.

Because lending money is a risky business, credit-granting agencies all have their own criteria for evaluating a person's credit worthiness and for deciding how much risk they are willing to take. It is possible that one credit grantor may turn you down while others may approve your credit application based on their evaluations.

If you are refused credit at one source, continue to shop around; you may be able to obtain credit from another of the many sources available.

Reasons for refusal

It is estimated that about 20 per cent of credit applications are turned down. If you have been refused credit, make sure the information the credit bureau has is correct and up to date. Visit the bureau and ask to examine your file. If it is in order, ask yourself if you fit into one of these common categories:

> **Are you really credit worthy?** If you list your assets, liabilities, and collateral, how risky do you appear to yourself? Have you changed addresses or jobs frequently? Considering your income and expenses, can you really afford credit? Or would you be in a better

financial position in a few months? Considering all this information, how stable would you appear to others?

- **Not enough information.** Applicants often leave out information to try to make their circumstances look better than they really are, or because they feel that certain information is too private or simply not necessary. Both reasons are wrong. Withholding information could have serious implications.
- **Do you have a financial problem?** That's the time when many people look for more credit—and that's what makes them poor risks. Sit down and figure out how much money you owe. If your monthly credit payments (excluding mortgages) total more than 20 per cent of your net monthly income, you should be very cautious about taking on any further credit. Otherwise, you may be heading towards financial disaster.
- **Are you fresh out of school with little job experience?** If so, you have had little opportunity to establish yourself or to establish credit. Make an appointment with a credit/loans officer or manager at a financial institution and ask to

establish credit. You will be told what you need to qualify; follow the advice. **Part-time or seasonal employment** has often been a reason for credit refusal. Rather than simply submitting an application, examine your financial situation carefully and then apply in person to as many credit grantors as is necessary. You may be able to explain your situation more precisely face-to-face with a credit or loans officer.

Income from other sources such as child and maintenance support is also taken in consideration when assessing your credit worthiness, but is no guarantee for getting credit, especially if it is your only source of income and you have little or no collateral to back you up.

It is important for you to find out why you have been refused credit so you can improve your credit qualifications. (See the section of this booklet called *The Consumer Reporting Act*).

Handling credit difficulties

If you run into credit problems from over-extension, inexperience, mismanagement, or unforeseen emergencies, it is important not to damage your credit record. If you want to pay but can't, contact the credit grantor immediately and discuss the problem before the bill is due. You may be able to negotiate a more manageable plan for payment.

It is in everyone's best interest to establish repayment terms you can meet—the credit grantor gets the money and you keep your good credit record. Failing to pay your debts will spoil your credit record and could lead to repossession of merchandise or loss of collateral.

However, under the *Consumer Protection Act,* if two thirds or more of the purchase price has been paid, repossession cannot take place without a court order.

If you are having problems in handling credit wisely, don't be afraid to ask for financial counselling from your credit grantor or from the credit counselling offices that service most communities. The important thing is to put your finances in order before they get worse and beyond your control.

Maintaining a good credit record

Here are a few proven tips for maintaining a good credit record:

- Don't sign a credit contract until you have read and understood it. If you don't understand it, ask questions until you are satisfied.
- Never sign a blank sheet. Your signature is your promise to pay and a contract is a legal document. Know its implications.
- Always pay your bills promptly; you have an obligation to pay.
- Try to pay off any debt quickly. Avoid those prolonged "low monthly payments" and avoid having to refinance at higher interest rates.
- Deal with known, respected, and established companies.
- Make sure you understand the total cost of your purchase. Add up those monthly charges.

Under the *Consumer Protection Act,* borrowers or credit users must be given a detailed written statement of the credit costs involved.

Credit: Does marriage affect it?

Can marriage affect your credit status?

Yes. Your ability to obtain credit can be affected, particularly if one spouse has a poor credit record. However, a spouse's poor credit record should not be the sole consideration in determining the other spouse's credit worthiness.

When you, as a couple, make a major purchase such as a car or a house from joint income, credit grantors will combine both your credit records and consider you a family unit. In this situation, one spouse's poor credit record could lessen the value of the other spouse's good record.

Are separate credit records important in a marriage?

Yes. Whether you work or not, you should either maintain the credit record you had before you married or consider establishing one.

Having your own separate credit record improves your chances for successfully managing your own affairs should your marriage end. It also helps you become more independent by increasing your knowledge of financial matters and your ability to handle them.

If you become separated, divorced, or widowed, an established and acceptable credit record can be an important asset. It makes obtaining credit easier and less expensive, especially at a time when ready cash could help ease adjustments you may be making in your life.

How to maintain a separate credit record

If you are working and taking care of your own credit accounts with your salary, maintaining a separate credit record is relatively simple.

If you don't work and rely on your spouse's income, however, you can still maintain, or establish, your own credit record, provided you can identify the separate record of your credit before your marriage.

This won't necessarily guarantee you credit, but handling accounts efficiently should prove to a credit grantor that you are a financially responsible person.

Again, having your own credit record is a particular advantage should your marriage end.

To ensure your credit record is kept separate from your spouse's, notify the local credit bureau that you want all information concerning your accounts maintained in

separate files under your own names. Call the credit bureau in your area and arrange an appointment to have the files separated.

Credit bureaus will require the co-operation of both spouses to identify individual account responsibility. Your file and your spouse's file will be cross-indexed, and both will be considered when you are pledging your joint credit as a family unit.

Can you obtain credit in your own name?

Yes. If you have the acceptable qualifications, you can obtain credit in your own name and accept responsibility for all debts you contract.

If you rely on your spouse's income, however, credit grantors will often request that your spouse co-sign any credit forms. This makes your spouse responsible for the debt if you fail to pay.

Even if you have your own income and an established credit record, your spouse's signature may be required for a major credit transaction.

Can you be asked for information about your spouse when you apply for credit?

Yes. Most credit grantors request information about your spouse, including employment. And their reasons may be quite justified, especially if you are using your spouse's income or if you are applying for more credit than you can afford.

But if you have acceptable qualifications for obtaining credit and plan to maintain the account on your own, you are not obliged to provide the requested information.

Can your name be on a credit card issued on your spouse's account?

Yes. You can have your own name put on a credit card issued on an account in your spouse's name. But you should be aware that this is not the same as obtaining credit in your own name, since your spouse is responsible for maintaining the payments.

Many women prefer their first names to be used on a credit card instead of their husband's (for example, Mrs. Mary Smith rather than Mrs. John Smith). If a card is sent to you with your husband's first name on it and you want your own name used, simply return

the card and ask that it be changed. Most credit card companies will agree to your request.

Does a woman have to change her name upon marriage?

No. There is no law that requires a woman to change her surname to her husband's name. If you were married before April 1, 1987, and adopted your husband's surname, this became your legal name. If you reverted to using your maiden name when your marriage dissolved, and if that occurred before April 1, 1987, your maiden name became your legal name once again.

On April 1, 1987, a new *Change of Name Act* came into force, and the law concerning change of name upon marriage changed significantly. If you were married on or after April 1, 1987, and you simply use your husband's surname, your legal name has not changed—it is still the name you had before you were married.

If you want to legally change your surname to your husband's or to a surname that is both your surnames hyphenated or combined, you must file a spousal election under the *Change of Name Act* with the Office of the Registrar General.

You may use any name you want as long as you do not use it for fraudulent purposes and you may request that everyone, including credit agencies, use the name. However, you cannot force people to recognize a name that is not your legal name if they do not wish to do so. Regardless of the name you use, you can only have one legal name on official documents.

If both spouses work, how do credit grantors evaluate a couple's income when considering an application for a mortgage?

In the past, mortgage lenders would not consider a wife's salary as part of the family's income because they assumed she would stop working. When the Canada Mortgage and Housing Corporation (an agency of the federal government) began to take into account both the husband's and wife's incomes on mortgage applications, other lenders began to follow suit.

Some lenders may still consider only part of a wife's income, so it may be necessary to shop around to find a lender who will take the couple's total income into account.

Under the equal credit opportunity guidelines a couple should not have to provide any information about family planning when

applying for a mortgage or any other form of credit.

Obligations under the Family Law Act, 1986

Ontario's *Family Law Act* declares that each spouse has an obligation to provide support for herself or himself, and for the other spouse if the need arises, to the extent that she or he is capable of doing so.

As far as credit is concerned, each spouse is responsible for her or his own debts. But there is a provision called *pledging credit for necessities:* while the spouses are living together one spouse can purchase, on the joint credit of the spouses, goods and services that are true necessities of life, and both spouses are responsible for payment.

The responsibilities between the two spouses will be determined according to the need and ability of each to pay. (This is a change from the old law that required only the husband to pay for his wife's needs.)

However, a spouse may not pledge the other spouse's credit where the supplier has been notified that the other spouse will not be responsible for the debt.

When is a spouse responsible for the other spouse's debts?

If one spouse co-signs any credit agreements issued in the other spouse's name, or if one spouse contracts a debt on the other spouse's behalf and with the other's consent, she or he is responsible for the debt if the other spouse fails to pay. A husband can withdraw his wife's privileges to use his credit and a wife can withdraw her husband's privileges to use her credit by notifying the creditors to stop extending credit to the other spouse.

Credit and the separated, divorced, or widowed person

Under the equal credit opportunity guidelines, a change in marital status should, in itself, be no reason to deny access to credit. If changing your status seriously affects your financial situation, however, your credit worthiness may legitimately be in question.

Whether you become separated, divorced or widowed, you should notify the credit reporting agency of your change in status so they can keep their information about you up-to-date.

If the agency file on you has been combined with your spouse's, ask them to separate your accounts. Your chances of obtaining credit will improve if you can show that you maintained certain accounts responsibly.

An acceptable credit record or proof of your credit worthiness is very important if you need money, especially if you're newly widowed and your spouse's estate has been frozen.

Under the *Family Law Act*, each spouse has the authority to pledge the joint credit of the spouses at anytime. But this pledge can be terminated by notice to the creditors, and the authority ceases automatically when the spouses are no longer living together.

If a wife needs financial assistance from her husband, she will have to go to court. On the other hand, she has the same right: she can notify the suppliers that she will no longer be responsible for joint expenses.

If you enter into a separation agreement, your rights to use your spouse's credit may be bargained away in exchange for an allowance. If your spouse fails to provide the allowance, however, you will have to take court action.

Under the credit guidelines, support payments should be considered a source of

income when you apply for credit.

If you are discriminated against

Everyone, regardless of sex or marital status, has the right to apply for credit and the right to be judged by the same standards. Your application for credit should be judged solely on your credit worthiness.

Although credit-granting policies and practices have changed considerably in the past few years, the entire credit-granting industry may not necessarily be aware of all the changes. If you are denied credit and believe you have been discriminated against because of your marital status or sex, ask to see the senior credit officer of the agency involved. Be prepared to assert your claim and to back it with facts.

If your request for credit is still refused and you are not given a satisfactory explanation, contact the ministry's Consumer Affairs Branch at (416) 326-8555 or 1-800-268-1142.

Rights and responsibilities

As credit is a privilege and not a right, it is important that we consumers know what legal resources are available to us and to our creditors. We must know our rights as well as our responsibilities.

The following descriptions are intended as guidelines only. For complete details, consult a lawyer or legal aid group, or get the relevant act at Publications Ontario, 880 Bay St., Toronto, M7A 1N8; or telephone (416) 326-5300 or toll-free 1 800 668-9938.

The Consumer Reporting Act

This act lists the kind of information that can be collected in your credit record, states how this information can be used, and protects the consumer against the use of inaccurate or outdated information.

No unfavourable information (ex. bankruptcy, criminal record) more than seven years old may be reported. However, if you have declared bankruptcy more than once, all bankruptcies may be reported. Reporting agencies must make a reasonable effort to confirm any unfavourable personal

information about you in their reports.

If your request for credit has been denied, credit grantors are required to give you their reasons *if* their decision was influenced by information received from a third party (such as a credit reporting agency, a person, or a company), but you must inquire within 60 days of receiving their notice.

You may review your file during normal business hours. Reporting agencies or credit bureaus must disclose the nature and substance of all information, including the sources of credit and personal information and the names of recipients of your consumer report, which contains this information.

You have the right to have incorrect or incomplete information in your file corrected; the agency must confirm your statements and update its files.

A person found guilty of knowingly providing false information or contravening the act is liable to a fine of up to $25,000, imprisonment up to one year, or both. A corporation committing a similar offence can be fined up to $100,000.

The Consumer Protection Act

This act controls the following areas:

- executory contracts over $50
- registration of itinerant sellers
- unsolicited goods
- referral selling
- full disclosure of credit terms when purchasing goods on credit
- penalties for offenses

The following areas are of particular importance to credit transactions:

If you buy goods or services worth more than $50 where either payment or delivery is delayed, you must be given a written contract which complies with this act.

If you sign a contract over $50 in your home, you have a two-day "cooling-off" period. You have the right to break such a contract within two working days by sending a registered letter or hand delivering a letter to the company. (Only Sundays and statutory holidays are not considered working days). A phone call is not acceptable.

- If you make any credit purchase, you must be informed at the beginning, in writing, of the cost of credit both in terms of dollars and of the annual interest rate, and of the additional charges to be paid if you default on payments. This detailing of costs applies to contracts for goods and services purchased on credit, to overdue monthly charge accounts, and to loans.
- Any agreement, instrument, or contract given to secure credit, such as a conditional sales contract, can be sold to an assignee. If you purchased goods under such an agreement or contract and the goods are defective, the assignee cannot ignore your complaints but has the same responsibilities as the original seller of the goods and must fulfil the contract's obligations.

A person found guilty of contravening this act is liable to a fine of up to $25,000, imprisonment or both. A corporation committing a similar offence can be fined up to $100,000.

Basic guide to credit words

In various credit agreements, you may come across words you don't normally use. Here are some explanations.

Lease: a contract for the leasing (renting) of goods for a specified period. The owner of the goods is the **lessor**; the person leasing is the **lessee**. Leases, also called leasing contracts or rental agreements, can vary considerably in terms and conditions, so study them carefully.

Conditional sales contract: may be used by a retailer for the sale of high-priced items (cars, appliances) often paid for in installments.

With this contract, the retailer owns the goods until they are fully paid for and may reclaim the goods if the buyer defaults on the payments. (See the section in this booklet called "Handling credit difficulties").

The conditional sales contract, also called **executory contract**, is subject to the *Consumer Protection Act* when used for consumer purchases of over $50 and paid for in installments.

Be an informed consumer

The Ontario Ministry of Consumer and Commercial Relations has published a number of other booklets covering a wide range of consumer topics.

For further information or to obtain copies of the ministry brochures call or write to:

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